HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Regina CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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NEW HOME MARKET

Starts to improve in 2010

[1]CMHC forecasts total housing starts of 850 units in 2009 and 950 units in 2010. Expect 550 new single-detached homes to break ground in Regina this year, 44 per cent off the 22-year high of 979 units in 2008. Single-detached starts will rise to 600 units in 2010, a nine per cent lift from 2009.

Higher new home inventories and competition from the resale market have prompted builders to scale back construction this year. Demand for new homes is slower due to double-digit price growth in the past two years. Economic uncertainty has also played a role in reducing demand this year. With new home supply past its

Figure 1

Source: Source: CMHC, CMHC Forecast (f)

[1] The forecasts included in this document are based on information available as of October 1, 2009.

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peak and inventory stabilizing by 2010, builders will drive production up by over nine per cent from 2009 levels. Stable prices, persistently low mortgage rates, and economic growth will also encourage the purchase of new homes.

Seeking to contain inventories, Regina builders started only 337 single-detached homes to the end of August, down 49 per cent from 2008 at this time. As a result, the level of single-detached units under construction declined 23 per cent compared to August 2008. Despite slower starts, the 677 singles under construction this August represent the second highest volume of single units underway for that month since 1984.

As demand has cooled and completions have picked-up, 44 completed single-detached homes remained unsold this August, 42 per cent more than one year prior and the highest August inventory of unsold units in eight years.

Given an average absorption rate of 70 singles per month, it will take the market about 10 months to deplete the 721 single-detached homes in supply this August. One year earlier, the 908 single-detached homes that were in supply could sustain the market for about 15 months, as it was absorbing an average of 60 single-detached units per month. Although market conditions are improving and moving toward balanced conditions, the market is still favouring buyers.

Share of starts in surrounding area inches up

To the end of August, 102 new single-detached homes broke ground in Regina's surrounding area, down 48 per cent from 2008 at this time. These starts captured 30.3 per cent of the Census Metropolitan Area's total single starts over this period, compared with a 2008 share of 29.6 per cent for this time of the year. This suggests that buyers' preference for purchase in developments surrounding the city of Regina remains relatively unchanged from last year. However, with major new land projects coming on stream within the city limits, we expect the city share to increase going forward.

Average new house price growth to slow in 2010

With 10 months of supply as of August, the new single-detached average absorbed price is on pace to reach $381,000 in 2009, up close to six per cent from 2008. This is considerably slower than the 18 per cent gain from 2007 to 2008. With supply still elevated, the new single-detached average absorbed price will increase 2.6 per cent to $391,000 next year.

Increase in New House Price Index slows

To the end of August, Statistics Canada's New House Price Index (NHPI) in Regina advanced by eight per cent year-over-year, compared with a 28 per cent annual gain in 2008 at this time. Lower pressures on both components of this index (house and land) have led to a slowdown in overall year-over-year growth. Price pressures on the house component of the NHPI have lessened due to lower demand for labour and building materials. Growth to the land component of the NHPI has also declined recently with the introduction of new sub-divisions leading to a higher volume of serviced lots. Based on these factors, we expect a five per cent increase in the NHPI this year and one per cent growth next year.

Multiple starts to rise in 2010

Multi-family starts will moderate to 300 units in 2009, down 24 per cent on a year-over-year basis. This follows a 26 per cent decrease in 2008 to 396 units. In 2010, multi-family starts will rise to 350 units.

By the end of August, the capital recorded 245 multiple starts, down 19 per cent from that time in 2008. Our forecast reflects that, in order to reduce supply, builders will continue to concentrate on completing and selling multis in 2009 rather than start a large number of new projects. We expect builders will pick up the pace in 2010 after addressing this supply issue.

In August 2009, there was a supply of 681 multiple units, 29 per cent higher than one year earlier. This August supply of multiple units was a record high thanks to the 635 units that were underway during that month. The under construction count was up 25 per cent year-over-year to a level not seen since February 1984. Apartments in the construction stage accounted for 93 per cent of the supply. At the current rate of monthly sales (15 on average), the supply of 681 multiple units is sufficient to last 45 months. A year earlier, supply was sufficient to last 23 months given that, on average, 23 multiple units were absorbed monthly.

These figures represent a historically large supply of multi units either under construction or completed and ready for sale, warranting lower housing starts in 2009. In 2010, supply

will be more in line with demand, resulting in an upturn in multiple starts.

Inventory of multis more than doubles

The August 2009 inventory of multiple units that were completed but not absorbed more than doubled compared to August 2008. The 46 multiple units in inventory this August was the highest August count in six years.

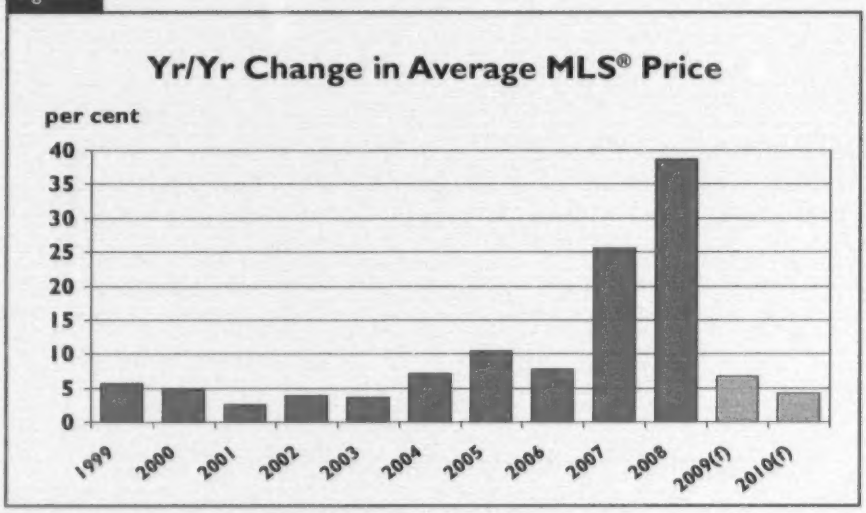
RESALE MARKET

Resales to increase in 2009 and 2010

CMHC forecasts Regina MLS® residential sales will increase almost eight per cent in 2009 to 3,600 units and continue to grow in 2010 with an 8.3 per cent increase, reaching 3,900 resales. If we leave 2007 out of the picture, the 2009 forecast would represent the highest number of sales on record. The forecast sales number for 2010 will be another banner year. Year-to-date (August) sales are now approaching 2,600 units, up five per cent over corresponding sales in 2008. Seasonally adjusted sales increased more than two per cent from July to August.

Slower price growth and low mortgage rates have encouraged potential homebuyers to re-enter the market. There were a large number of listings available in the first half of 2009, offering homebuyers a wide choice and more competition within the marketplace. Rising rents have also made homeownership more attractive and new home price escalation has directed more demand to the resale market. The Federal renovation program is another positive factor leading to a sustained level of sales as it encourages homebuyers to purchase an existing home and renovate. These factors have been keeping resale demand at relatively elevated levels and will continue to support resales going forward.

Figure 2



Source: Canadian Real Estate Association, CMHC Forecast (f)

Sales-to-listings ratio on the rise

New listings activity has seen year-over-year declines since May. Escalating sales and a lower pace of new listings have helped reduce active listings from the June peak of 1,776 listings. At the current rate of monthly sales, the inventory of active MLS® listings is sufficient to last 4.8 months, a measure in decline since March 2009.

The seasonally adjusted sales-to-listings ratio has been on the rise since March. The August seasonally adjusted ratio of 25 per cent is the highest since May 2008.

Average price increases modest compared to 2007 and 2008

Average MLS® resale price will rise 6.7 per cent in 2009 ($245,000) followed by 4.1 per cent in 2010 ($255,500). These gains are well below the double-digit increases of 2007 (25.6 per cent) and 2008 (38.7 per cent), which were the strongest price gains on record. Our forecast is in line with the increases in average residential price recorded prior to the remarkable price gains of 2007 and 2008.

A number of factors contributed to weaker growth in average price this year. A withdrawal of investor dollars and an elevated inventory of active listings due to a surge in new listings were the initial factors that slowed the rise in average price. Additionally, consumers began to resist the extraordinary price increases in the ownership market, adding to the decline in sales.

Compositional effects have also contributed to a slowdown in price

gains compared to 2007 and 2008. In 2009, there has been a shift to a higher proportion of sales in the mid ranges. The proportion of home sales in the $400,000 price range has fallen off two percentage points this year while the $200,000 to $275,000 price range has seen an increase of 10 percentage points. Further, new and existing condominiums are entering the market and these lower-priced units are helping to contain average price growth.

Notwithstanding factors that are tending to slow price growth, other factors are supporting average price gains. As mentioned earlier, listings are falling off and sales have shown an uptick, leading to a recent rise in the sales-to-listing ratio. The industry is also reporting that there is competition for homes in affordable price ranges.

Lower mortgage rates have led to lower monthly carrying costs compared to those seen a year ago. Assuming a 10 per cent down payment, the monthly mortgage payment, including principal and interest, for the average priced Regina resale home approached $1,300 in August 2009, down eight per cent from August 2008. The monthly carrying cost has declined on a year-over-year basis for the last five months including August. These lower carrying costs will support demand going forward and help achieve the forecast sales targets.

RENTAL MARKET

Regina's vacancies to trend higher in 2009 and 2010

Apartment vacancies across Regina will increase in 2009, reaching 1.2 per cent in the October survey after bottoming out at 0.5 per cent in the 2008 survey. There will be a further increase to two per cent in the 2010 survey.

The City of Regina has a condominium conversion policy that tends to discourage conversion from rental to condominium tenure in times of low average vacancy. This has reduced the number of conversions in recent years and there have been few additions to the rental stock via rental construction. While these two factors are maintaining the traditional rental supply at stable levels, property owners are experiencing indirect competition from investors who have purchased new row housing and existing single-detached units for rental purposes.

On the demand side, low mortgage rates and the rapid escalation in rents in 2007 and 2008 have encouraged first-time home buyers to move from rental into homeownership housing. Although Regina has recently experienced lower net migration, our forecast calls for migration to remain at historically high levels throughout the forecast period. Furthermore, capital projects will lead to expansion of the construction labour force, a group that favours more temporary rental housing. This will help maintain vacancies at a relatively low level.

Rent to increase moderately in 2009 and 2010

As vacancies trend up in 2009 and 2010, we anticipate average rent to increase moderately in Regina. We forecast two-bedroom apartment monthly rents to increase to $800 in 2009 and $825 in 2010. Such increases will be modest compared to the $95 gain experienced in 2008, when vacancies were 0.5 per cent. Property owners will reduce the pace of rent increases compared to recent years in order to deter more rental households from leaving the rental market to home ownership.

ECONOMIC OUTLOOK

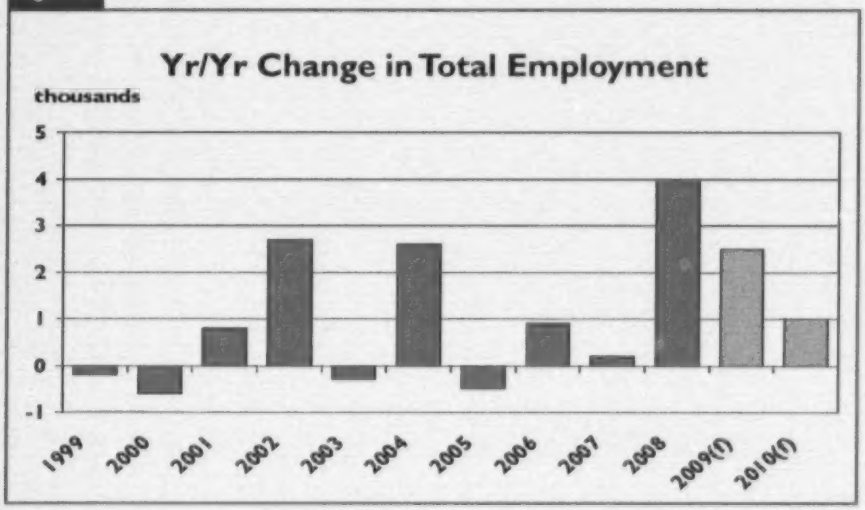
Regina's economic expansion slowed in 2009, due largely to the global economic downturn and lower commodity prices. Local manufacturing output was hampered by weaker export demand, particularly in areas related to steel production. The construction sector also slowed, as healthy industrial and commercial construction could not compensate for lower residential activity. Economic uncertainty and a weaker housing performance also held back durable goods purchases in 2009.

A global economic recovery and rising commodity prices will support economic growth moving forward. A rebound in housing starts and numerous non-residential investments will further contribute to the expansion in 2010, as will government expenditures on infrastructure. Major capital projects in the energy sector will also boost non-residential construction.

Statistics Canada data confirms another strong year for Regina job creation in 2009. Employment growth is on track for a 2.5 per cent gain, slightly lower than the four per cent increase in 2008. The majority of 2009's job gains have been full-time positions, maintaining an impressive pace of income growth. Regina's average weekly earnings grew by 5.3 per cent in the first eight months of 2009, outperforming 2008 and well beyond the local rate of inflation.

Despite improving economic conditions in 2010, Regina's

Figure 3



Source: Statistics Canada and CMHC Forecast (f)

employment expansion will be relatively subdued but the unemployment rate will remain among the lowest of all major Canadian cities. Given the persistently low unemployment rate in 2010, expect part-time job losses to occur in favour of full-time positions.

Regina's low unemployment rate relative to other locations should continue to attract strong levels of net migration. Overall migration in 2009 and 2010 is expected to moderate only slightly from the peak years of 2007 and 2008. Next year's migration will continue to support housing demand and the level of net migration will far surpass those experienced prior to 2007.

MORTGAGE RATE OUTLOOK

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. The Bank has committed to keeping this rate at 0.25 per cent through the middle of 2010 unless inflationary pressures warrant an increase.

Mortgage rates have fallen over the course of 2009, but are now expected to remain relatively stable for the rest of the year. Posted mortgage rates will gradually increase through 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate will be in the 3.50-4.25 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.50-6.00 per cent range.

Forecast Summary Regina CMA Fall 2009							
	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	2,953	3,957	3,338	3,600	7.8	3,900	8.3
MLS® New Listings	4,197	4,661	6,355	6,200	-2.4	6,000	-3.2
MLS® Average Price ($)	131,851	165,613	229,716	245,000	6.7	255,000	4.1
New Home Market							
Starts:							
Single-Detached	749	864	979	550	-43.8	600	9.1
Multiples	237	534	396	300	-24.2	350	16.7
Starts - Total	986	1,398	1,375	850	-38.2	950	11.8
Average Price ($):							
Single-Detached	247,392	305,290	359,795	381,000	5.9	391,000	2.6
Median Price ($):							
Single-Detached	242,499	291,100	333,600	351,000	5.2	358,000	2.0
New Housing Price Index (% chg.)	8.6	22.2	26.2	5.0	-	1.0	-
Rental Market							
October Vacancy Rate (%)	3.3	1.7	0.5	1.2	-	2.0	-
Two-bedroom Average Rent (October) ($)	619	661	756	800	-	825	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.03	-	3.83	-
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.55	-	5.75	-
Annual Employment Level	109,600	109,800	114,200	117,000	2.5	118,000	0.9
Employment Growth (%)	0.9	0.2	4.0	2.5	-	0.9	-
Unemployment rate (%)	4.9	4.9	3.9	4.3	-	4.9	-
Net Migration [1]	1,774	3,504	3,600	3,200	-	3,400	

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2008 migration data is estimated

The forecasts included in this document are based on information available as of October 1, 2009.

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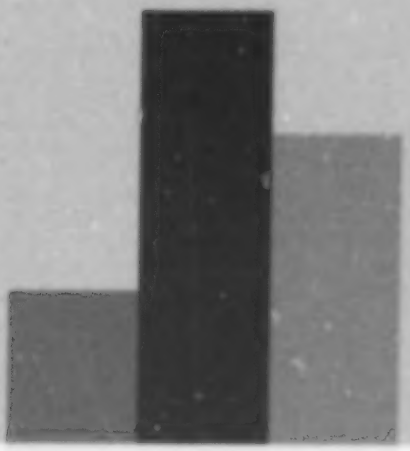

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